

REPORT OF EXAMINATION
OF THE
HOME WARRANTY OF AMERICA, INC.

AS OF
DECEMBER 31, 2009

Filed September 24, 2010

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Los Angeles, California
August 31, 2010

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

HOME WARRANTY OF AMERICA, INC.

(hereinafter also referred to as the Company) at the domiciliary address and principal office located at 2030 Main Street, Suite 1300, Irvine, California 92614. The Company's administrative office and primary location of books and records are located at 1371 Abbott Court, Suite A, Buffalo Grove, Illinois 60089.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2009. The examination included a review of the Company's practices and procedures, an examination of management records, test and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2009, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; and sales and advertising.

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COMPANY HISTORY

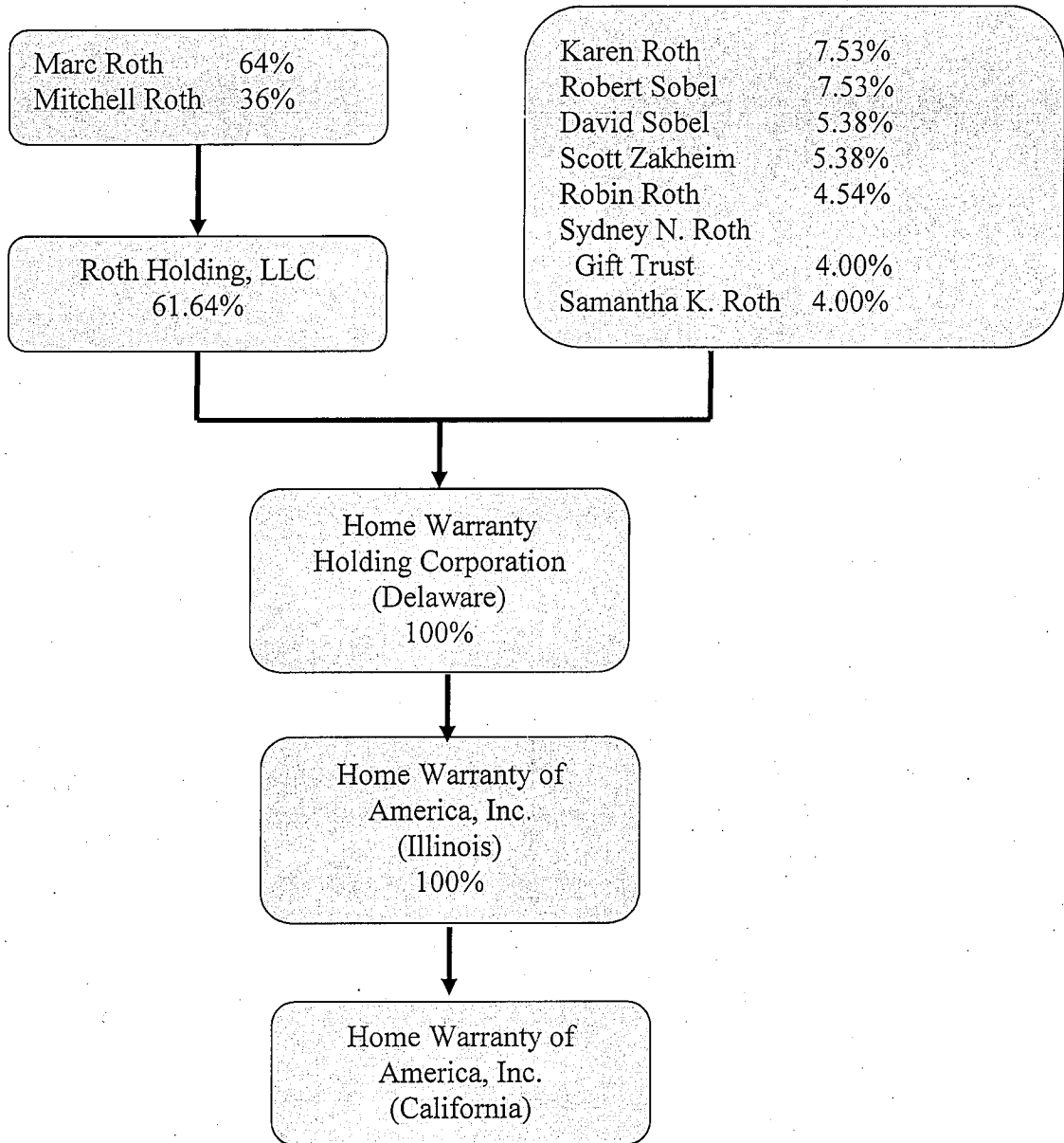
The Company was incorporated in California on November 6, 2000. On July 15, 2004, and as subsequently amended on May 3, 2005, the Company filed with the Insurance Commissioner of the State of California its application for a permit authorizing it to sell and issue eight thousand (8,000) shares of its ten dollar (\$10) par value capital stock to Home Warranty of America, L.L.C., at a purchase price of one hundred dollars (\$100) per share for an aggregate cash consideration of eight hundred thousand dollars (800,000). The purpose of the sale and issuance was to capitalize the Company so as to qualify it to apply for, and to receive, a home protection company license authorizing it to transact home protection business in the State of California

Effective December 30, 2004, the Company's parent changed its name from Home Warranty of America, L.L.C., to Home Warranty of America, Inc., an Illinois corporation. The name change was due to a merger that did not affect the consolidated financial position, ownership or control of the parent company.

During 2007 and 2009 the Company received capital contributions from its parent of \$500,000 and \$400,000, respectively.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Home Warranty of America, Inc., an Illinois corporation. The ultimate controlling parent is Home Warranty Holding Corporation, a Delaware corporation. The following abridged organizational chart depicts the Company's relative position within the holding company system as of December 31, 2009:



Management of the Company is under the control of a single-member board elected annually. A listing of the members of the board and principal officers serving on December 31, 2009 follows:

Directors

Name and Residence

Principal Business Affiliation

Marc Roth
Buffalo Grove, Illinois

President, Treasurer, and Chief Financial
Officer
Home Warranty of America, Inc.

Principal Officers

Name

Title

Marc Roth

President, Treasurer, and Chief Financial
Officer

Robert Sobel

Secretary

Management Agreements

Services Agreement: On December 16, 2004, the Company entered into a service agreement with its parent, Home Warranty of America, Inc., an Illinois corporation (HWA). Under the terms of the agreement, HWA provides the Company with certain administrative support services, including but not limited to, the following: computer services and equipment; human resources; payroll; supplies; facility space; and back office support services. For 2007, 2008, and 2009, the Company paid HWA \$159,430, \$365,420, and \$509,960, respectively. The agreement was approved by the California Department of Insurance (CDI) on July 25, 2005.

Tax Allocation Agreement: Effective January 1, 2005, the Company and its affiliates have been parties to a consolidated federal income tax agreement with the ultimate parent, Home Warranty Holding Corporation, a Delaware corporation. The Company's tax liability or refund, under the terms of this agreement, is no more than what it would have been had it filed on a separate stand-alone basis. The agreement was approved by the CDI on October 23, 2007.

CORPORATE RECORDS

A review of the jurat page of the annual statement noted that there was no one identified as a director of the Company. It is recommended that the Company correctly identify the directors in future reporting periods.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2009, the Company was licensed to sell home protection contracts in California, Florida and Virginia. The contracts provide extended warranty protection for major mechanical systems and appliances to residential homeowners. This includes repair and or replacement of the covered items as long as they are located within the confines of the foundation of the home, are in place and in good working order on the effective date of the contract, and become inoperative due to normal wear and tear. The Company offers 13-month extended warranty protection programs and 12-month contract programs. The 13-month programs are offered to consumers who are involved with real estate transactions, and the 12-month program is offered directly to consumers who are not involved in real estate transactions.

The Company's sales focus is primarily in Southern California. Marketing of its home protection contracts is performed by the Company utilizing one sales manager, five sales representatives, and third party real estate professionals.

During 2009, the Company wrote \$1.86 million of direct premiums. Of the direct premiums written, \$1.4 million (76.7%) was written in California, \$0.30 million (15.9%) was written in Florida, and \$0.10 million (7.4%) was written in Virginia.

LOSS EXPERIENCE

The Company reported net operating and net losses in both 2007 and 2008, but in 2009 and the second quarter of 2010 it reported a net operating gain and net income.

Year	Net Operating Gain or (Loss)	Net Income Or (Loss)
2007	\$(317,956)	\$(93,411)
2008	(79,411)	(129,579)
2009	94,878	70,207
2010(*)	129,388	108,752
Totals	(173,101)	(44,031)

(*) Through June 30, 2010

The Company sustained losses in 2007 due to the general slowdown in the real estate market. The 2008 losses were due to the costs associated with increased premium growth in California, Florida, and Virginia. The 2009 and 2010 second quarter operating gains were due to an increase in sales volume in the real estate market.

REINSURANCE

The Company did not assume or cede any reinsurance during the examination period.

ACCOUNTS AND RECORDS

A review of the Company's All Other Liabilities line item reported in its 2009 Annual Statement indicated that the Company incorrectly reported a deferred tax credit of \$133,000 as a contra liability. As a result, the Company's total assets and total liabilities were understated by \$133,000; however, there was no surplus effect, therefore no examination adjustment was made.

It is recommended that the Company implement procedures to ensure the accuracy of its reported financial statements and to comply with the National Association of Insurance Commissioners Annual Statement Instructions in reporting deferred tax credits.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2009

Underwriting and Investment Exhibit for the Year Ended December 31, 2009

Reconciliation of Surplus as Regards Contract Holders
from December 31, 2007 through December 31, 2009

Statement of Financial Condition
as of December 31, 2009

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Stocks:				
Common stocks	\$ 761,267	\$	\$ 61,267	
Cash on hand and short-term investments	1,046,220		1,046,220	
Home protection contract fees receivable	<u>169,146</u>	<u>20,000</u>	<u>149,146</u>	
Total assets	<u>\$ 1,976,633</u>	<u>\$ 20,000</u>	<u>\$ 1,956,633</u>	
<u>Liabilities, Surplus and Other Funds</u>				
Claims adjusted and unpaid or in process of adjustment			\$ 55,800	(1)
Other expenses			54,125	
Taxes, licenses and fees			18,131	
Unearned home protection contract fees			826,319	
All other liabilities			<u>(85,727)</u>	
Total liabilities			868,648	
Common capital stock		\$ 80,000		
Gross paid-in and contributed surplus		1,620,000		
Unassigned funds (surplus)		<u>(612,015)</u>		
Total surplus as regards contract holders			<u>1,087,985</u>	
Total liabilities, surplus and other funds			<u>\$ 1,956,633</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2009

Statement of Income

Underwriting Income

Home protection contract fees earned		\$ 1,693,003
Deductions:		
Claims incurred	\$ 563,597	
Claims service expenses incurred	321,274	
Other expenses incurred	<u>713,254</u>	
Total deductions		<u>1,598,125</u>
Net underwriting gain		94,878

Investment Income

Net investment income earned	\$ 40,069	
Net realized capital loss	<u>(58,795)</u>	
Net investment loss		(18,726)

Other Income

Receivable balances written off		<u>(5,945)</u>
Net income		<u>\$ 70,207</u>

Capital and Surplus Account

Surplus as regards contract holders, December 31, 2008		\$ 441,160
Net income	\$ 70,207	
Change in non-admitted assets	(10,000)	
Change in unrealized gain/loss on investments	186,618	
Change in capital: paid-in	<u>400,000</u>	
Change in surplus as regards contract holders		<u>646,825</u>
Surplus as regards contract holders, December 31, 2009		<u>\$ 1,087,985</u>

Reconciliation of Surplus as Regards Contract Holders
from December 31, 2006 through December 31, 2009

Surplus as regards contract holders,
 December 31, 2006, per Examination

\$ 486,406

	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>
Net loss	\$	\$ 152,783
Change in nonadmitted assets		12,000
Change in unrealized loss in investments		133,638
Change in capital: paid-in	<u>900,000</u>	
Totals	<u>\$ 900,000</u>	<u>\$ 298,421</u>

Net increase in surplus as regards contract holders
 for the examination period

601,579

Surplus as regards contract holders,
 December 31, 2009, per Examination,

\$ 1,087,985

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Claims Adjusted and Unpaid or in Process of Adjustment

Based on a review of claim payments and reserves subsequent to the examination date, the reserves for the above captioned account appear to be reasonable and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Corporate Records – (Page 5): It is recommended that the Company correctly identify the directors in future reporting periods.

Accounts and Records- (Page 7): It is recommended that the Company implement procedures to ensure the accuracy of its reported financial statements and to comply with the National Association of Insurance Commissioners Annual Statement Instructions in reporting deferred tax credits.

Previous Report of Examination

Management and Control - Tax Allocation Agreement (Page 5): It was recommended that the Company submit this agreement to the California Department of Insurance for approval, and also report in its annual Form B filings. The Company complied with this recommendation.

Corporate Records (Page 5): It was recommended that the Company implement procedures in its board meetings to ensure compliance with California Insurance Code Sections 1200 and 1201. The Company complied with this recommendation.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

Bridget Lopez, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California